International Business Environments and Operations, 13/e

Part Two
Comparative Environmental Frameworks



Chapter Three

The Political and Legal Environments Facing Business

Chapter Objectives

- To discuss the philosophies and practices of a political system
- To profile trends in contemporary political systems
- To explain the idea of political risk and describe approaches to managing it
- To discuss philosophies and practices of the legal system
- To describe trends in contemporary legal systems
- To explain legal issues facing international companies

Political and Legal Factors Influencing International Business Operations

EXTERNAL INFLUENCES

PHYSICAL AND SOCIAL FACTORS

- Political policies and legal practices
- Cultural factors
- Economic forces
- Geographic influences

COMPETITIVE ENVIRONMENT

- Role of government in society
- Political ideologies
- Political risk
- The legal environment
- Operational and strategic legal issues

OPERATIONS

OBJECTIVES

STRATEGY

MEANS

Definition of a Political System

- The complete set of institutions, political organizations, and interest groups,
- The relationships among institutions, and the political norms and rules that govern their functions

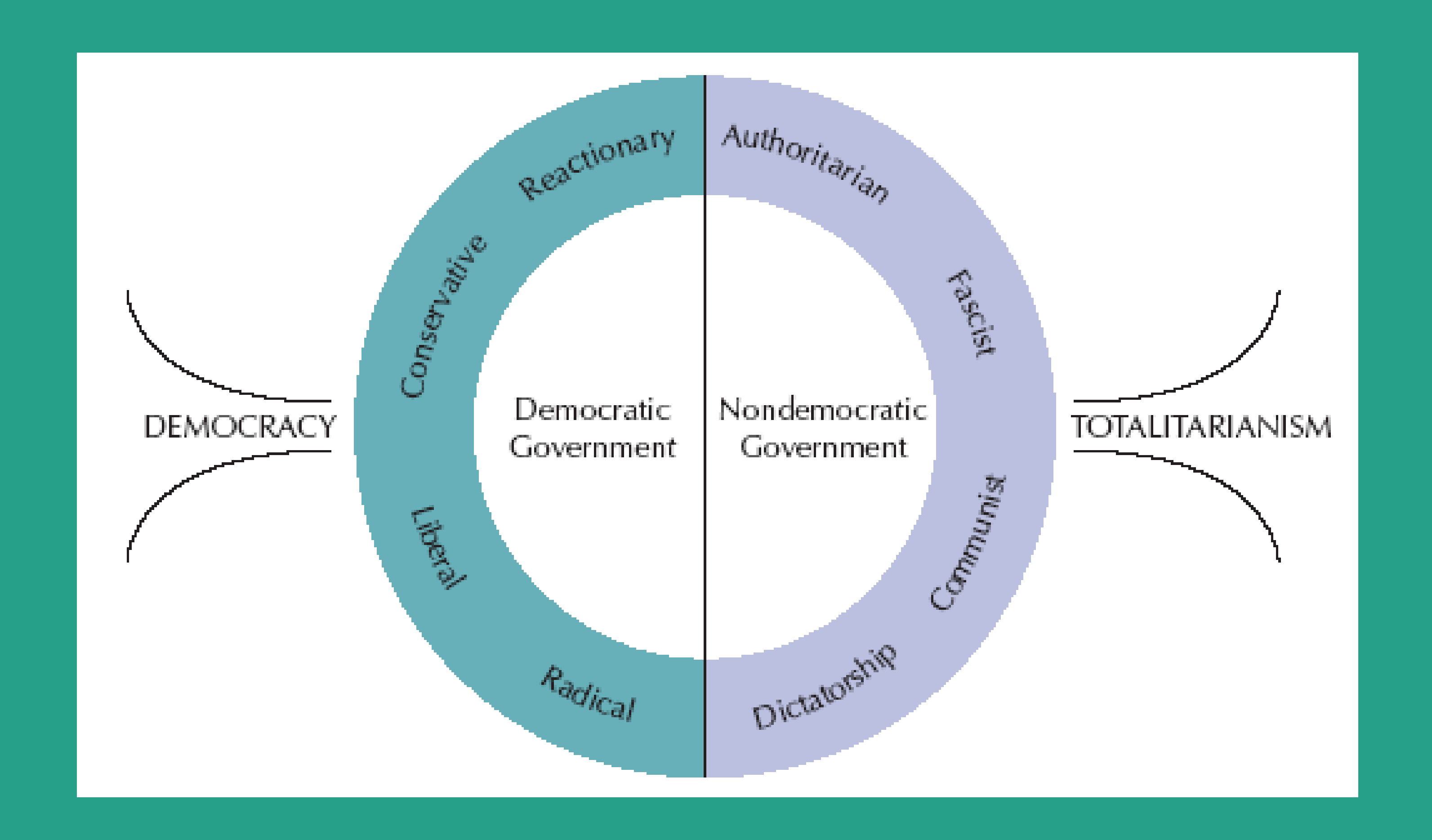
Individualism vs. Collectivism

- Individualism: primacy of the rights and role of the individual
- Collectivism: primacy of the rights and role of the community

Political Ideology

- The system of ideas that expresses the goals, theories, and aims of a sociopolitical program
- Most modern societies are pluralistic—different groups champion competing political ideologies

The Political Spectrum



Democracy

- Wide participation by citizens in the decision-making process
- Five types:
  - Parliamentary
  - Liberal
  - Multiparty
  - Representative
  - Social

Fundamental Elements of Democratic Political Systems

- Freedom of opinion, expression, press, religion, association, and access to information
- Exercise of citizen power and civic responsibility either directly or through elected representatives
- Citizen equality in opportunity and treatment before the law
- Free, fair, and regular elections
- Majority rule coupled with protection of individual and minority rights
- Fair and independent court system charged with protecting individual rights and property
- Subordination of government to the rule of law

Totalitarianism

- Restricts decision making to a few individuals
- Types:
  - Authoritarianism
  - Fascism
  - Secular totalitarianism
  - Theocratic totalitarianism

Trends in Political Systems

- Third Wave of Democracy
- Engines of Democracy

1. The failure of totalitarian regimes to deliver economic progress
2. Improved communications technology
3. Economic dividends of increasing political freedom

Definition of Political Risk

- The risk that political decisions or events in a country negatively affect the profitability or sustainability of an investment
- Types:
  - Systemic
  - Procedural
  - Distributive
  - Catastrophic

Definition of a Legal System

- The mechanism for creating, interpreting, and enforcing the laws in a specified jurisdiction
- Types:
  - Common law
  - Civil law
  - Theocratic law
  - Customary law
  - Mixed systems

Trends in Legal Systems

- The preference for stability
- The influence of national legacies

Bases of Rules

- Rule of Man-ultimate power resides in a person
- Rule of Law-institutes a just political and social environment, guarantees the enforceability of commercial contracts and business transactions, and safeguards personal property and individual freedom

Operational Concerns that Face Managers Worldwide

- Starting a business
- Entering and enforcing contracts
- Hiring and firing local workers
- Closing down the business

Strategic Concerns that Face Managers Worldwide

- Product safety and liability
- Marketplace behavior
- Product origin and local content
- Legal jurisdiction
- Arbitration

Intellectual Property

- Intangible property rights that are a result of intellectual effort
- Intellectual property rights refer to the right to control and derive the benefits from writing, inventions, processes, and identifiers
- Local attitudes play a large role in piracy

Legacies, Economics, and Orientation

- Legal Legacies
- Wealth, Poverty, and Protection
- Cultural Orientation

The Driver of Change

Countries that generate intellectual property are strong advocates of protecting the ownership rights.